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# Select Committee on Pension Policy



## Executive Committee

### July 19, 2005

1:30 - 3:30 PM

House Hearing Room A, Olympia

## AGENDA

**(A) Directions on Day's Agenda**

**(B) August Committee Meeting**

**(C) Work Plan**

**(D) State Actuary Appointment Committee**

**(E) Other Business**

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 753-9144. TDD 1-800-635-9993

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# Select Committee on Pension Policy

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EXECUTIVE COMMITTEE
DRAFT MINUTES

June 21, 2005

The Select Committee on Pension Policy met in Senate Hearing Room 1, Olympia, Washington on June 21, 2005

Committee members attending:

Representative Fromhold, Chair
Elaine Banks
Lois Clement
Senator Fraser
Gil Gilman for Sandra J. Matheson
Leland Goeke
Robert Keller
Corky Mattingly

Representative Fromhold, Chair, called the meeting to order at 1:05 PM.

(1) **Mandatory Studies**
The Committee members discussed the issues of gain-sharing and post-retirement employment. A gain-sharing subgroup will be formed and members are to contact Representative Fromhold or Matt Smith if there is interest in participating in this subgroup.

(2) **LEOFF 1 Benefit Cap**
Bob Baker, Senior Research Analyst, reviewed the "LEOFF 1 Benefit Cap" report.

**Post-Retirement Employment**
Laura Harper, Senior Research Analyst Legal, reviewed the "Post-Retirement Employment" report.

**Plan 1 Unfunded Liability**
Laura Harper, Senior Research Analyst Legal, reviewed the "Plan 1 Unfunded Liability" report.

**PSERS Membership Eligibility**
Bob Baker, Senior Research Analyst, reviewed the "PSERS Membership Eligibility" report.

(3) **July 19th Full and Executive Committee Agendas**
Committee members discussed the July agenda issues.

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**(4) Subgroup Membership**

Matt Smith, State Actuary, reviewed the Subgroup membership list. A Public Safety subgroup will be formed to study Washington State Patrol issues. Members interested in participating in this subgroup should contact Representative Fromhold or Matt Smith.

The meeting adjourned at 2:45 PM.

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# August 23$^{th}$ – Meeting Planner

*(July 12, 2005)*

## FULL COMMITTEE AGENDA

(1) USERRA Compliance Update – Background

(2) Disability Retirement – Background

(3) Gain-sharing Study – Subgroup report

(4) TRS Out-of-State Service Credit

(5) Age 70-1/2 and Opt In/Opt Out

(6) Plan 3 Vesting

## EXECUTIVE COMMITTEE AGENDA

(A) Directions on day's Full Committee Issues

(B) September SCPP Meeting

# USERRA Compliance

*(July 12, 2005)*

**Issue**

The issue before the Executive Committee is whether retirement system plan provisions should be reviewed for compliance with the federal Uniformed Services Employment and Re-employment Rights Act (USERRA, which governs interruptive military service.

**Staff**

Laura C. Harper, Senior Research Analyst/Legal
(360) 786-6145

**Members Impacted**

This issue could affect members of all systems and plans.

**Current Situation**

Interruptive military service is governed by federal law. At a minimum, public employers must provide the protections specified in USERRA. USERRA was signed into law in 1994, with amendments made in 1996, 1998 and 2000 and 2004. Also, the Department of Labor has published proposed regulations to help explain USERRA. For employers, the fundamental requirement of USERRA as it relates to retirement plan benefits is to provide for recovery of the benefits that a re-employed participant did not receive due to qualifying military service.

## Analysis

Federal USERRA law preempts state law, however USERRA does not diminish any employment benefit that is more generous than the rights provided under the Act. Because of federal preemption, DRS will not deny a benefit that is available under the federal law, even if it is not mentioned in the state statutes. DRS does, however, train its staff based on state law. Thus, it could be useful to employers and members to bring state law into consistency with federal law. Examples of some of the areas of current state law that may need review include:

- definitions of conflicts
- definitions of veteran
- pay-back period for contributions
- time limits on service.

The Department of Retirement Systems generally takes the lead on compliance issues. The SCPP generally recommends pension legislation to the legislature at large.

**Next Steps**

USERRA compliance is an issue that could be handled in a technical corrections bill. DRS could investigate the issue and identify any areas of concern that would require legislative action. The OSA could provide bill-drafting assistance and the SCPP could provide any needed policy input and ultimately, sponsorship of a bill. It is up to the Executive Committee to decide whether to schedule this item for further consideration during this interim.

# Disability Retirement

*(July 13, 2005)*

**Issue**

Plan 2 members of PERS, SERS, and TRS who are totally incapacitated for continued employment during the performance of their duties are eligible for a retirement allowance that is based upon service credit and actuarially reduced from age 65.

Disability benefit issues for members of the WSPRS have been forwarded to the Public Safety Subgroup of the SCPP.

**Staff**

Robert Wm. Baker, Senior Research Analyst
(360) 786-6144

**Members Impacted**

This issue would impact all plan 2/3 members of PERS, SERS, and TRS.

**Current Situation**

A member who is incapacitated while on the job and retires as a result of that resulting disability may receive a retirement benefit that is actuarially reduced from age 65. This is a common provision within plan 2/3 design. An actuarial reduction can average more than 8 percent per year compounded (see Figure 1).

***Figure 1***
**Plan 2/3 Actuarial Adjustment Factors**

| Years Early | Factor |
|---|---|
| 1 | .91 |
| 2 | .82 |
| 3 | .73 |
| 4 | .67 |
| 5 | .61 |

| Years Early | Factor |
|---|---|
| 6 | .55 |
| 7 | .49 |
| 8 | .43 |
| 9 | .40 |
| 10 | .37 |

**Example**

A member who became disabled and had to retire at age 55, and was not eligible for an alternate early retirement, would have their benefit multiplied by a factor of 0.37 -- they would see their benefit reduced to 37% of its base amount (see Figure 2).

***Figure 2***
**Plan 2/3 Benefit Reduction for Disability**

| | |
|---|---|
| Age | 55 |
| Average Final Compensation | $4,000 |
| Years of Service | 20 |
| Base Percent | 40% |
| Base Benefit | $1,600 |
| Actuarial Adjustment Factor | 0.37 |
| Adjusted Benefit | $592 |

**History**

In the 2005 legislative session, the LEOFF 2 Board sponsored legislation that removed the actuarial reduction for disability retirements. The legislation passed as Chapter 451, Laws of 2005.

**Policy Questions**

- Are disability benefits an insurance or retirement benefit?
- Is there a need to distinguish between duty and non-duty disability?
- What about the interaction with L&I and SSI benefits if duty related?
- Can the State and local government employers afford to pay disability benefits through the retirement system?

**Next Steps**

This issue is tentatively scheduled for the August and October meetings.

It is up to the Executive Committee to decide whether to schedule this item for further consideration during this interim.

# TRS Out-of-State Service Credit

*(November 30, 2004)*

**Issue**

The issue before the SCPP is whether to propose legislation allowing eligible members of the Teachers' Retirement System (TRS) Plans 2 and 3 to purchase up to seven years of membership service credit for public education experience as a teacher in a public school in another state or with the federal government.

**Staff**

Laura Harper, Senior Research Analyst/Legal
(360) 586-7616

**Members Impacted**

This proposal impacts eligible members of TRS Plans 2 and 3. We estimate that 1,371 TRS 2 members out of 7,637 active TRS 2 members, and 26,038 TRS 3 members out of 47,263 active TRS 3 members would be affected by this bill.

**Current Situation**

Currently members of TRS may use out-of-state service credit solely for the purpose of determining the time at which the member may retire. The service credit is not purchased and it is not membership service. The member's benefit is actuarially reduced to recognize the difference between the age a member would have first been able to retire based on service in the State of Washington and the member's retirement age using the out-of-state service credit.

## Proposal

This bill impacts the Teachers' Retirement System (TRS) by allowing members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System. The public education experience claimed must have been covered by a governmental retirement or pension plan, and the member must not be receiving or eligible to receive an unreduced retirement benefit that includes the service to be purchased. To take advantage of this provision, a member must have at least five and less than ten years of service credit in TRS. The purchase cannot result in the purchase of service credit that is greater than the member's total years of creditable service in the retirement system. The service credit purchased is membership service and may be used to qualify the member for retirement.

The member pays the product of the sum of the applicable employer and employee contribution rates multiplied by the member's salary at the time of purchase, and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in the actuarial funding chapter, Chapter 41.45 RCW. The applicable employer and employee contribution rates are based on the member's age at entry into TRS and calculated under the entry age normal cost method. All or part of the cost may be paid by a rollover or transfer from an eligible retirement plan, and the employer may pay all or a portion of the member's cost.

## Policy Analysis

This proposal provides a benefit to the TRS Plans 2 and 3 that is not available in the SERS or PERS Plans 2/3. This proposal is inconsistent with the legislative policy that the retirement systems of the state shall provide similar benefits wherever possible. See RCW 41.50.005(1). If passed this proposal could lead to "leapfrogging" in that members of other retirement systems may seek similar or improved service credit purchase opportunities in the future. Proponents of this legislation have argued that the teaching profession has a unique need for this benefit in order to assist in recruitment and retention of teachers.

It should be noted that TRS members have another service credit option that PERS and SERS members do hot have: the ability to elect to apply service credit earned in an out-of-state retirement system that covers teachers in public schools solely for the purpose of determining the time at which the member may retire. See RCW 41.32.065. TRS members are not required to pay for the out-of-state credit, as it is not used to increase the amount of their benefit.

On the other hand TRS Plan 2/3 members do not have a service credit option that PERS and SERS Plan 2/3 members have, which is the ability at retirement to make a one-time purchase of up to five years of additional service credit (or "air time") in order to offset the required benefit reductions for early retirement. The SCPP is considering a proposal this interim that would extend this option to TRS Plan 2/3 members. There is no cost for this proposal because the purchase price for "air time" is the actuarial cost, which is paid in full by the member.

**Procedural Posture/Executive Committee Recommendation**

As the result of the September 7, 2004 briefing of the SCPP on the issue of Age 65 Retirement, an "age 65 subgroup" was formed to make specific recommendations to the SCPP. Last month, the subgroup recommended to the Executive Committee that the SCPP consider legislation to provide eligible members of TRS Plans 2/3 the opportunity to purchase up to seven years of out-of-state service credit as membership service. On November 9, 2004, the Executive Committee directed staff to prepare a bill draft and fiscal note on the out-of-state service credit proposal.

**Bill (Draft)**

The bill draft for this proposal is attached.

**Fiscal Note (Draft)**

The draft fiscal note for this proposal is attached.

# FISCAL NOTE

REQUEST NO.

| RESPONDING AGENCY: | CODE: | DATE: | BILL NUMBER: |
|---|---|---|---|
| **Office of the State Actuary** | **035** | **2/1/05** | **HB 1322/SB 5489** |

**SUMMARY OF BILL:**

This bill impacts the Teachers' Retirement System (TRS) by allowing members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System. The public education experience claimed must have been covered by a governmental retirement or pension plan, and the member must not be receiving a benefit or eligible to receive an unreduced retirement benefit that includes the service to be purchased. To take advantage of this provision, a member must have at least five and less than ten years of service credit in TRS. The purchase cannot result in the purchase of service credit that is greater than the member's total years of creditable service in the retirement system.

The member pays the product of the sum of the applicable employer and employee contribution rates multiplied by the member's salary at the time of purchase, and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in the actuarial funding chapter, Chapter 41.45 RCW. The applicable employer and employee contribution rates are based on the member's age at entry into TRS and calculated under the entry age normal cost method. All or part of the cost may be paid by a rollover or transfer from an eligible retirement plan, and the employer may pay all or a portion of the member's cost. The service credit purchased is membership service and may be used to qualify the member for retirement.

Effective Date: January 1, 2006

**CURRENT SITUATION:**

Currently members of TRS may use out-of-state service credit solely for the purpose of determining the time at which the member may retire. The service credit is not purchased and it is not membership service. The member's monthly benefit is actuarially reduced to recognize the difference between the age the member would have first been able to retire based on service in the State of Washington and the member's retirement age using the out-of-state service credit.

**MEMBERS IMPACTED:**

We estimate that 1,371 TRS 2 members out of 7,637 active TRS 2 members, and 26,038 TRS 3 members out of 47,263 active TRS 3 members would be affected by this bill.

We estimate that a typical member impacted by this bill would purchase 1.15 years of out-of-state service. The entry age normal cost rate used to determine the purchase price would vary by the member's entry age. The cost of purchasing 1.15 years of service for a typical member with a salary of $50,000 would be as follows:

Plan 2 Member: $50,000 x 11.80% x ( 1 + 1.08(.15) ) = $6,856
Plan 3 Member: $50,000 x 5.90% x ( 1 + 1.08(.15) ) = $3,428

**ASSUMPTIONS:**

We estimated that the average member would buy 1.15 years of service based on a sample of out-of-state service for 6,850 members. These members had a total of 10,815 years of out-of-state service, or an average of 1.58 years per member. When the service was limited to 7 years, the members in the sample had a total of 7,910 years, or an average of 1.15 years.

Plan 2 members pay both the member and the employer rate. Plan 3 members pay the employer rate only. The contributions to purchase Plan 2 service would be included with the regular and refundable Plan 2 member contributions. The contributions to purchase Plan 3 service would not be refundable but would be used to determine the Plan 3 defined benefit. The purchase of the first year has no interest. The second year interest rate is 8%.

We included the out-of-state service for the benefit calculation, retirement eligibility, and vesting service. Some of our demographic assumptions such as turnover and step salary increases are service based. Our experience studies to determine these rates are based on TRS service only. For estimating the cost of this bill, we assumed that a member's turnover and merit increases would be based on service with TRS only.

**FISCAL IMPACT:**

**Description:**

The member would pay for the cost of the additional service, but the plan would be would partially subsidizing the cost because the interest is based on the date of purchase, not on the adjusted date of hire.

**Actuarial Determinations:**

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

| *(Dollars in Millions)* | Teachers' Retirement System Plan 2/3 Current | Increase | Total |
|---|---|---|---|
| **Actuarial Present Value of Projected Benefits**<br>(The Value of the Total Commitment to all Current Members) | $5,220 | $19 | $5,239 |
| **Unfunded Actuarial Accrued Liability**<br>(The Portion of the Plan 1 Liability that is Amortized at 2024) | N/A | N/A | N/A |
| **Unfunded Liability (PBO)**<br>(The Value of the Total Commitment to all Current Members Attributable to Past Service) | $(1,397) | $15 | $(1,382) |

**Increase in Contribution Rates:** (Effective 09/01/2005)

| | |
|---|---|
| **Current Members** | |
| Employee | 0.05% |
| Employer State | 0.05% |
| **New Entrants*** | |
| Employee | 0.07% |
| Employer State | 0.07% |

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

**Fiscal Budget Determinations:**

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

| **Costs** (in Millions): | **TRS 2/3** |
|---|---|
| **2005-2007** | |
| **State:** | |
| General Fund | $2.7 |
| Non-General Fund | $0.0 |
| **Total State** | **$2.7** |
| Local Government | $1.8 |
| Total Employer | $4.5 |
| Total Employee | $0.4 |
| **2007-2009** | |
| **State:** | |
| General Fund | $3.4 |
| Non-General Fund | $0.0 |
| **Total State** | **$3.4** |
| Local Government | $1.7 |
| Total Employer | $5.1 |
| Total Employee | $0.4 |
| **2005-2030** | |
| **State:** | |
| General Fund | $86.7 |
| Non-General Fund | $0.0 |
| **Total State** | **$86.7** |
| Local Government | $43.7 |
| Total Employer | $130.4 |
| Total Employee | $3.1 |

## STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teachers' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2005 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

## GLOSSARY OF ACTUARIAL TERMS:

**Actuarial accrued liability:** Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

**Actuarial Present Value:** The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

**Aggregate Funding Method:** The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

**Entry Age Normal Cost Method (EANC):** The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

**Normal Cost:** Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

**Pension Benefit Obligation (PBO):** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

**Projected Benefits:** Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

**Unfunded Liability (Unfunded PBO):** The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

**Unfunded Actuarial Accrued Liability (UAAL):** The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

# Age 70½ and Opt-in/Opt-out

*(December 21, 2004)*

**Subgroup Proposal**

Allow members of PERS, SERS, and TRS who have attained age 70½ to retire and return to work without restriction. Such individuals would continue to draw a salary but would cease active membership in their plans and would no longer accumulate service credit. The provision would not apply to state elected officials unless they leave elected office or are reelected after the effective date of the act.

Also allow members of TRS Plans 2 and 3, SERS, and PERS holding state elective office the option, at the beginning of each term of office, to continue active membership or to retire and begin receiving their retirement allowance

**Staff**

Robert Wm. Baker, Senior Research Analyst
(360) 586-9237

**Members Impacted**

This proposal would impact all PERS, SERS, and TRS members who desire to work beyond age 70½, and all members of PERS, SERS, and TRS 2/3 who hold state elective office.

As of the 2003 valuation there were 502 vested members of PERS, SERS, and TRS who were still working at age 70½.

At last count there were 139 state elective officials who were plan members without other public employment.

**Current Situation**

After separating from employment for one month, PERS and SERS retirees may return to work for up to 867 hours in a calendar year before their benefit is suspended. PERS 1 retirees who separated for 3 months may return to work for up to 1,500 hours in a calendar year before their benefit is suspended.

After separating from employment for one month, TRS 1 retirees may return to work for up to 1,500 hours in a school year before their benefit is suspended. After separating from employment for one month, TRS 2/3 retirees may return to work for up to 867 hours in a school year before their benefit is suspended.

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receiving their retirement benefits, regardless of age. TRS 1 is the exception in permitting state elected officials who are TRS 1 members, if otherwise eligible, to begin receiving their retirement benefit while serving in state elective office. The LEOFF 1 Plan also allows retired members to work for any non-LEOFF employer without a reduction of their benefits.

**History**

During the 2002 Interim, the Joint Committee on Pension Policy (JCPP) forwarded companion bills SB 5093 and HB 1209 to the 2003 legislature. These bills would have allowed members of PERS, SERS, and TRS Plans 1, 2 and 3 who have attained age 70½ and meet the vesting requirements of their plan to apply for retirement benefits without requiring that they separate from service. Such retirees would not be allowed to continue to make contributions and earn service credit. The bill passed in the Senate but did not receive a hearing in the House.

The JCPP also forwarded companion bills HB 1201 and SB 5095 to the 2003 legislature. This legislation would have allowed PERS, SERS, TRS 2/3, or LEOFF 2 members holding state elective office the option, at the beginning of each term of office, of continuing active membership or retiring and beginning their retirement allowance. SB 5095 passed the Senate. HB 1201 did not receive a hearing in the House.

## Policy Analysis

The age 70½ issue was originally thought to involve compliance to federal rules mandating distribution of retirement allowances at age 70½. When it was discovered that those rules applied to private plans, the state provisions were repealed. This issue has now evolved from one in which older members may receive retirement benefits without separating from employment, to a post-retirement employment issue where members must separate from employment before being eligible for the benefit. This would establish a new policy in the post-retirement employment arena.

The opt-in/opt-out issue is one in which inconsistencies already exist in the provisions of the various systems and plans. This proposal would remove much of that inconsistency, and standardize the optional membership of elected officials in a manner similar to existing TRS 1 provisions.

## Executive Committee Recommendation

Forward the subgroup proposal to the full committee for public hearing.

## Bill (Draft)

Attached

## Fiscal Note (Draft)

Attached

# FISCAL NOTE

REQUEST NO.

| RESPONDING AGENCY: | CODE: | DATE: | BILL NUMBER: |
|---|---|---|---|
| **Office of the State Actuary** | **035** | **2/1/05** | **HB 1318** |

**SUMMARY OF BILL:**

This bill impacts the Public Employee's Retirement System, School Employee's Retirement System, and Teachers Retirement System Plans 2 and 3 by allowing members who retire on or after age seventy and one-half, and who fulfill the 1 month separation requirement, to return to work without restriction; upon receipt of retirement benefits such an individual would cease active membership and no longer make contributions nor receive service credit. Current state elected and appointed officials are exempt from this act unless they leave elected office, or are re-elected after the effective date of the act.

The bill also allows state elective officials the option to continue or resume membership, and if otherwise eligible, retire and receive their retirement allowance at the beginning of each term of office. A state elected official member who chooses to end membership at the beginning of a term of office shall neither make contributions nor earn service credit for the duration of that term.

Effective Date: 90 days after session.

**CURRENT SITUATION:**

After a one-month separation, PERS, SERS, and TRS 2/3 retirees may return to work for 867 hours per calendar year or school year before their benefit is suspended. PERS 1 members may return to work after a 3-month separation and work up to 1,500 hours per calendar year before their benefit is suspended. TRS 1 members may return to work after a one-month separation and work for up to 1,500 hours per school year before their benefit is suspended.

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receipt of their retirement benefits regardless of age. While the rules for state elected officials vary by system and plan, the Teachers' Retirement System Plan 1 is a notable distinction in permitting state elected officials, if otherwise eligible, to begin their retirement benefit while serving in state elective office.

**MEMBERS IMPACTED:**

We estimate that potentially all active members in these systems could be affected by the age 70 1/2 portion of this bill. Active members currently over age 70 1/2 would be impacted on the effective date of the bill. This includes 342 out of 154,550 active members in PERS, 28 out of 66,075 in TRS, and 132 out of 49,214 in SERS.

We estimate that relatively few members in these systems could be affected by the opt-in/opt-out portion of this bill, although nearly all members could potentially become elected officials. The opt-in/opt-out portion of the bill would impact the current state elected officials in the systems if they are reelected following the effective date. This includes 129 active members in PERS, 1 in TRS (not including 4 in TRS 1 who already have the opt-in/opt-out provision), and 0 in SERS.

We estimate that a typical member impacted by the age 70 1/2 provision of this bill would receive a benefit of about $11,700 per year, but would give up additional benefit accruals of about $1,000 per year. For example, a PERS member who retired at age 74 with 19 years of service would receive an annual benefit of $13,200; waiting one additional year to retire would result in an annual benefit of $14,400. A typical SERS member who retired at age 74 with 12 years of service would receive an annual benefit of $4,600; waiting one additional year to retire would result in an annual benefit of $5,200. The impact on long service members over age 70 1/2, and not subject to the 30-year service cap, is greater than the impact on short service members.

**ASSUMPTIONS:**

Our current retirement rate assumptions have all members retiring at age 70 or earlier. The members over 70 1/2 who continue working after we have assumed they will retire, typically produce an actuarial experience gain to the system. In general, the benefits earned for each year of additional service and increases in pay after age 70 are not as valuable as the retirement benefits that could have been received in the year. This is especially true for Plan 1 members who already have hit the 30-year maximum on service.

To determine the cost of the age 70 1/2 provision, we started with an assumption change for the retirement rates at age 70 and beyond. For PERS and SERS, we replaced our 100% retirement assumption at age 70 with 25% per year from age 70 to 81 and 100% at age 82. We did not change the rates before age 70. For TRS, we did not change our 100% assumption at age 70, because the number of active TRS members working past age 70 is not significant compared to PERS and SERS, and the oldest active TRS member is 77, compared to 87 in both PERS and SERS. So we would not expect any significant cost impact for TRS.

For PERS and SERS, we compared the costs of the plans with the new retirement assumption to the costs using an alternative retirement assumption. We increased the 25% rate to 37.5% as an estimate of how many more active members over age 70 1/2 would retire after the bill is effective.

## FISCAL IMPACT:

### Description:

The postponed retirements after age 70 1/2 currently produce actuarial gains to the affected systems. The age 70 1/2 portion of the bill would reduce these gains. We estimate that the reduction of these gains represents a cost of $6.0 million in PERS 1, $11.6 million in PERS 2/3 and $1.4 million in SERS 2/3 (on a fully projected present value basis).

The op-in/opt-out provision of this bill would apply to a small group of members and the associated cost would be insufficient to increase contribution rates in the affected systems.

### Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the required actuarial contribution rate as shown below:

**Increase in Contribution Rates:** (Effective 09/01/05)

| | PERS | TRS | SERS |
|---|---|---|---|
| **Current Members** | | | |
| Employee | 0.02% | 0.00% | 0.02% |
| Employer State* | 0.03% | 0.00% | 0.03% |
| **New Entrants**** | | | |
| Employee | 0.01% | 0.00% | 0.00% |
| Employer State | 0.01% | 0.00% | 0.00% |

**0.01% of the total employer rate increase goes toward amortizing the plan 1 UAAL.*
***Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

### Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

| **Costs** (in Millions): | PERS | TRS | SERS | Total |
|---|---|---|---|---|
| **2005-2007** | | | | |
| **State:** | | | | |
| General Fund | $0.7 | 0.0 | 0.3 | $1.0 |
| Non-General Fund | 1.3 | 0.0 | 0.0 | 1.3 |
| **Total State** | **2.0** | **0.0** | **0.3** | **2.3** |
| Local Government | 1.9 | 0.0 | 0.4 | 2.3 |
| Total Employer | 3.9 | 0.0 | 0.7 | 4.6 |
| Total Employee | $1.9 | 0.0 | 0.2 | $2.1 |

| Costs (in Millions): | PERS | TRS | SERS | Total |
|---|---|---|---|---|
| **2007-2009** | | | | |
| **State:** | | | | |
| General Fund | $0.9 | 0.0 | 0.3 | $1.2 |
| Non-General Fund | 1.6 | 0.0 | 0.0 | 1.6 |
| **Total State** | **2.5** | **0.0** | **0.3** | **2.8** |
| Local Government | 2.2 | 0.0 | 0.5 | 2.7 |
| Total Employer | 4.7 | 0.0 | 0.8 | 5.5 |
| Total Employee | $2.1 | 0.0 | 0.2 | $2.3 |
| **2005-2030** | | | | |
| **State:** | | | | |
| General Fund | $13.9 | 0.0 | 3.2 | $17.1 |
| Non-General Fund | 25.4 | 0.0 | 0.0 | 25.4 |
| **Total State** | **39.3** | **0.0** | **3.2** | **42.5** |
| Local Government | 35.5 | 0.0 | 4.8 | 40.3 |
| Total Employer | 74.8 | 0.0 | 8.0 | 82.8 |
| Total Employee | $30.9 | 0.0 | 1.3 | $32.2 |

**STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:**

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Washington Public Employees' Retirement System, he Teachers' Retirement system, and the Washington School Employees' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2005 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

**GLOSSARY OF ACTUARIAL TERMS:**

**Actuarial accrued liability:** Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

**Actuarial Present Value:** The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

**Aggregate Funding Method:** The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

**Entry Age Normal Cost Method (EANC):** The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

**Normal Cost:** Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

**Pension Benefit Obligation (PBO):** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

**Projected Benefits:** Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

**Unfunded Liability (Unfunded PBO):** The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

**Unfunded Actuarial Accrued Liability (UAAL):** The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

# Plan 3 Vesting

*(October 25, 2004)*

**Issue**

Reduce the required length of service for vesting in the defined benefit portion of the PERS, SERS and TRS Plans 3 from 10 years to 5 years.

**Staff**

Laura Harper, Senior Research Analyst/Legal
(360) 586-7616

**Members Impacted**

As of the most recent valuation, 53,500 Plan 3 members were not vested. Non-vested members included those who had less than 10 years of service; those who were not vested in Plan 2 on July 1, 1996 in TRS, September 1, 2000 in SERS or June 1, 2003 in PERS; and those who did not have 5 years of service including 12 months after age 54. Any of these non-vested members would be affected by this proposal unless they leave employment or become vested prior to the effective date of any legislation to change the vesting period.

**Current Situation**

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after 10 years of service, or after 5 years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution portion of their Plan.

**History**

SHB 1298 was introduced in the 2003 legislative session. The bill would have shortened the defined benefit vesting period in the Plans 3 from 10 years to 5 years. The bill passed the

House, but was not heard in the Senate. In 2004 similar legislation was introduced as SB 6247/HB 2540. It passed in the Senate but died in House Appropriations.

**Policy Analysis**

The Plans 3 are hybrid plans. The defined benefit portion of these plans (the portion to which the 10-year vesting period applies) uses a formula to determine the monthly retirement benefit that a member will receive for life: 1% x Average Final Compensation (AFC) x years of service credit. The defined benefit is funded entirely by employers. When members leave employment prior to becoming vested, they forfeit these employer contributions. On the other hand, the defined contribution portion of the Plans 3 is funded entirely by employees. Employees are immediately vested in their own contributions.

When the Plans 3 were on the drawing board, one of the concerns was the small size of the defined benefit that members would receive if they earned only a modest amount of service credit before full retirement. Plan 2 members receive 10% of average final compensation (AFC) upon vesting (5 years × 2% per year). This 10% standard was used for the defined benefit portion of the Plans 3. Setting the vesting period in the Plans 3 to 10 years guaranteed vested members 10% of their AFC as a minimum defined benefit (10 years x 1% per year).

In the design of the Plans 3, the long vesting period for the defined benefit portion of the pension was offset by the fact that Plan 3 members were immediately vested in the defined contribution portion of their benefit. Since the defined benefit would be such a small portion of the total benefit during the early years of employment, and since members were immediately vested in their employee contributions, it was felt that those who left employment before the end of the vesting period would not be losing such a significant amount of their total retirement benefit that the longer vesting period would adversely affect employment behavior.

The following table illustrates the value of the defined benefit (DB) portion of Plan 3 for members who entered the plan at various ages and separated from service after 5 years. These examples assume an average final compensation of $30,000 and an annual inflation rate of 3.5%.

**Future Value of Plan 3 Benefit, Adjusted for 3.5% Assumed Inflation**
(Defined Benefit payable at 65 = 1% x $30,000 x 5 years of service)

| Entry Age | Age at Separation | DB Benefit at 65 | Future Value* | % of DB |
|---|---|---|---|---|
| 25 | 30 | $1,500 | $450 | 30% |
| 35 | 40 | $1,500 | $635 | 42% |
| 45 | 50 | $1,500 | $895 | 60% |
| 55 | 60 | $1,500 | $1,263 | 84% |

**Reduced for 3.5% assumed annual inflation from age at separation to age 65.*

The table illustrates that for those who are hired at earlier ages, the future benefit that is forfeited is smaller after adjustment for assumed inflation from age at separation to age 65. This is consistent with the rationale behind the 10-year vesting period, and the reason why the vesting period was lowered for older employees. The higher the plan entry age, the greater the percentage of the future benefit that would be forfeited at separation as the result of a failure to vest.

It is unknown whether members actually analyze their own retirement benefits at this level of detail, or how much the vesting period is a factor in employment decisions. Theoretically, shorter vesting periods support attraction of new employees. Longer vesting periods support retention of employees.

Another retention incentive in the Plans 3 is the provision that members who remain in the Plans 3 for at least twenty-service credit years receive the additional benefit of an "inflation protector." These members receive an increase in the defined benefit portion of their retirement allowance of 3% per year, compounded for each month from the date of separation to the date that the retirement allowance commences.

## Comparison with Washington Plans and Other States

The 10-year vesting period for the defined benefit portion of the Plans 3 is the longest among the plans administered by Washington State. The Plans 1 and 2, which are all defined benefit and not hybrid plans, have 5-year vesting periods.

The national trend in retirement plans is toward shorter vesting periods due to the increasing mobility of the workforce and the trend toward multiple careers. However, numerous state and municipal retirement plans still use a 10-year vesting period. In the 2002 survey from the Public Pension Coordinating Council covering 276 public retirement plans, a total of 96 plans had vesting requirements of 10 years or more. More than 40 of those plans were administered by twenty-five states or territories, in addition to Washington. In comparison, 132 plans had vesting requirements of 5 years or less. The survey results are attached.

**Options**

The proposal to lower the vesting period for the defined benefit portion of the Plans 3 from 10 to 5 years has been considered and rejected during the last two legislative sessions. With that in mind, the Committee may wish to consider alternative approaches to the issue. One possibility is that the proposal was rejected due to cost. An option for lowering the cost would be to develop proposals for 5-year vesting in the higher age brackets when the vesting period is more likely to affect employment behavior. Currently 5-year vesting is available in the Plans 3 if 12 months of a member's service is earned after attaining age 54. That age could be lowered.

If the SCPP wishes to pursue the issue of Plan 3 vesting, it might be useful to study the probability of member termination at various ages as well as the value of the defined benefit component of the Plans 3 at various ages in order to better assess whether any changes to the vesting period might affect employment behavior.

If the Committee determines that the cost of changing the vesting period is prohibitive at this time, another option would be to encourage additional member education. There may be a perception that the longer vesting period for the defined benefit portion of the Plans 3 is a detriment to those who might select Plan 3. However, through additional member education, more new hires may be able to better evaluate the financial implications of the vesting period and better understand the tradeoffs in the design of the Plans 3.

## Stakeholder Input

While there has been no opportunity for specific stakeholder input on this issue during this interim, it should be noted that the following organizations have requested in writing that Plan 3 vesting be considered by the SCPP in 2004: the Washington Association of School Administrators, Association of Washington School Principals, and the Washington Education Association.

## Executive Committee Recommendation

The Executive Committee heard a report on this issue on June 15, 2004. At that time it was decided that the full SCPP could hear the issue later in the interim, since the issue is not a new one.

## Bill Draft

A copy of the draft bill is attached This bill would reduce the required length of service for vesting in the defined benefit portion of PERS 3, SERS 3 and TRS 3 from 10 years to 5 years.

## Fiscal Note

An updated draft fiscal note is attached. The bill would increase contribution rates in the PERS, TRS and SERS Plans 2 and Plans 3, as the cost of this Plan 3 benefit enhancement is shared equally among Plan 2/3 employers and Plan 2 employees. This cost-sharing approach is defined under state law in the actuarial funding chapter, Chapter 41.45 RCW.

# FISCAL NOTE

REQUEST NO.

| RESPONDING AGENCY: | CODE: | DATE: | BILL NUMBER: |
|---|---|---|---|
| **Office of the State Actuary** | **035** | **2/25/05** | **SHB 1320** |

**SUMMARY OF BILL:**

This bill impacts the Teachers Retirement System (TRS), School Employee's Retirement System (SERS), and Public Employee's Retirement System (PERS) Plans 3 by lowering the vesting period for the defined benefit portion of the plans. Plan 3 members would be vested after ten years of service, or after five years if 12 months of that service is earned after attaining age 44. In other words, this bill would lower the defined benefit vesting period from ten years to five years for those members who are age 45 and older.

Effective Date: 90 days after session.

**CURRENT SITUATION:**

Currently there is five-year vesting in the defined benefit portion of the Plans 3 for those who are 55 and older. The Plans 3 provide that members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000 and June 1, 2003, the initial transfer dates for TRS, SERS and PERS respectively.

**MEMBERS IMPACTED:**

This bill impacts 2,816 out of 17,548 active members in PERS 3, an additional 8,791 out of 47,263 active members in TRS 3, and 9,495 out of 27,710 active members in SERS 3; for a total of 21,102 out of 92,521 active Plan 3 members. The members impacted are the non-vested Plan 3 members with hire ages between age 35 and age 50.

The counts of vested and non-vested active members are shown in the following table. As of the most recent valuation, 52,612 out of 92,521 Plan 3 members had less than 10 years of service or were not vested in Plan 2 on July 1, 1996 in TRS, September 1, 2000 in SERS or June 1, 2003 in PERS, or did not have 5 years of service including 12 months after age 54.

The 21,102 members impacted include 4,380 active non-vested members over age 44 with at least 5 but less than 10 years of service who would be impacted immediately and 16,722 active non-vested members who might be impacted at a later date because they are projected to attain between 5 and 10 years of service after age 44, but before age 55.

| System / Plan | Vested Total | Non-Vested Total | Non-Vested Total Impacted | Non-Vested Impacted Immediately | Non-Vested Impacted in Future |
|---|---|---|---|---|---|
| **PERS 3** | 9,771 | 7,777 | 2,816 | 433 | 2,383 |
| **TRS 3** | 18,646 | 28,617 | 8,791 | 2,601 | 6,190 |
| **SERS 3** | 11,492 | 16,218 | 9,495 | 1,346 | 8,149 |
| **TOTAL** | 39,909 | 52,612 | 21,102 | 4,380 | 16,722 |

Not included in these counts are terminated non-vested members who would add to the total should they become re-employed and qualify for vesting under the terms of this bill.

**ASSUMPTIONS:**

We assumed that members hired before age 35 are not impacted because they would have at least 10 years of service by age 45 and would be vested by age 45 under current law. We assumed that members hired after age 50 are not impacted because they would be at least age 55 by the time they have 5 years of service and would be vested at the same time as under current law. We did not include any assumption for terminated non-vested members who become re-employed.

**FISCAL IMPACT:**

**Actuarial Determinations:**

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

| *(Dollars in Millions)* | | Current | Increase | Total |
|---|---|---|---|---|
| **Actuarial Present Value of Projected Benefits** | **PERS 2/3** | $14,278 | $3 | $14,281 |
| (The Value of the Total Commitment to all Current Members) | **TRS 2/3** | $5,220 | $6 | $5,226 |
| | **SERS 2/3** | $2,138 | $5 | $2,143 |
| **Unfunded Actuarial Accrued Liability** | | | | |
| (The Portion of the Plan 1 Liability that is Amortized at 2024) | **PERS 1** | $2,620 | $0 | $2,620 |
| | **TRS 1** | $1,416 | $0 | $1,416 |
| **Unfunded Liability (PBO)** | **PERS 2/3** | $(3,184) | $1 | $(3,183) |
| (The Value of the Total Commitment to all Current Members Attributable to Past Service) | **TRS 2/3** | $(1,397) | $3 | $(1,394) |
| | **SERS 2/3** | $(425) | $2 | $(423) |

**Increase in Contribution Rates:**
(Effective 9/1/05)

| | PERS | TRS | SERS |
|---|---|---|---|
| **Current Members** | | | |
| Employee | 0.00% | 0.01% | 0.04% |
| Employer State | 0.00% | 0.02% | 0.04% |
| **New Entrants*** | | | |
| Employee | 0.01% | N/A | N/A |
| Employer State | 0.01% | 0.03% | 0.12% |

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

**Fiscal Budget Determinations:**

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

| **Costs** (in Millions): | **PERS** | **TRS** | **SERS** | **Total** |
|---|---|---|---|---|
| **2005-2007** | | | | |
| **State:** | | | | |
| General Fund | $0.1 | $1.1 | $0.6 | $1.8 |
| Non-General Fund | $0.1 | $0.0 | $0.0 | $0.1 |
| **Total State** | **$0.2** | **$1.1** | **$0.6** | **$1.9** |
| Local Government | $0.2 | $0.7 | $1.0 | $1.9 |
| Total Employer | $0.4 | $1.8 | $1.6 | $3.8 |
| Total Employee | $0.2 | $0.1 | $0.3 | $0.6 |
| **2007-2009** | | | | |
| **State:** | | | | |
| General Fund | $0.1 | $1.4 | $0.9 | $2.4 |
| Non-General Fund | $0.2 | $0.0 | $0.0 | $0.2 |
| **Total State** | **$0.3** | **$1.4** | **$0.9** | **$2.6** |
| Local Government | $0.3 | $0.7 | $1.4 | $2.4 |
| Total Employer | $0.6 | $2.1 | $2.3 | $5.0 |
| Total Employee | $0.3 | $0.1 | $0.3 | $0.7 |
| **2005-2030** | | | | |
| **State:** | | | | |
| General Fund | $5.4 | $36.5 | $32.6 | $74.5 |
| Non-General Fund | $10.4 | $0.0 | $0.0 | $10.4 |
| **Total State** | **$15.8** | **$36.5** | **$32.6** | **$84.9** |
| Local Government | $14.3 | $18.4 | $49.0 | $81.7 |
| Total Employer | $30.1 | $54.9 | $81.6 | $166.6 |
| Total Employee | $15.0 | $0.6 | $2.6 | $18.2 |

**State Actuary's Comments:**

This bill does not modify the employee/employer level of cost sharing as defined in the actuarial funding chapter – Chapter 41.45 RCW. As a result, the cost of this Plan 3 benefit enhancement is shared equally among Plan 2/3 employers and Plan 2 employees.

## STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teacher's Retirement System, School Employees' Retirement System, and Public Employees' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2005 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

## GLOSSARY OF ACTUARIAL TERMS:

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**Actuarial Present Value:** The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

**Aggregate Funding Method:** The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

**Entry Age Normal Cost Method (EANC):** The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

**Normal Cost:** Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

**Pension Benefit Obligation (PBO):** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

**Projected Benefits:** Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

**Unfunded Liability (Unfunded PBO):** The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

**Unfunded Actuarial Accrued Liability (UAAL):** The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

# Select Committee on Pension Policy
# Proposed 2005 Work Plan
*(June 23, 2005)*

## June 21, 2005
Election of officers
Rules of procedure
2005 meeting dates
Session update
2005 work plan
2005 mandatory studies - background

## July 19, 2005
LEOFF 1 benefit cap - background/options
Postretirement employment - options preview
Plan 1 unfunded liability - background/options
PSERS eligibility - background
Retirement governance - background

## August 23, 2005
USERRA compliance update - background
Plan 3 vesting
Opt In-Opt Out
TRS out-of-state service
Disability retirement - background
Gain-sharing study - subgroup report

## September 27, 2005
Judges benefit multiplier - background/options
Service credit purchases/transfers - background
Retirement governance - options
PSERS eligibility - options

## October 18, 2005
Disability retirement - options
Service credit purchases/transfers - options
Plan 2/3 VEBA and PEBB eligibility - background/options
Accounting for postretirement medical benefits - background

## November 15, 2005
OSA retire-rehire study - report
2004 actuarial valuation report
2006 legislative proposals

## December 13, 2005
2006 legislative proposals

## Other Items
Medicare Part D briefing - requested
Reports to legislative fiscal committees - during legislative assembly
January 2006 meeting - session update (pension bills)

## Subgroups/Subcommittees:
Gain-sharing subgroup
Public Safety subgroup

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

# Select Committee on Pension Policy



June 23, 2005

TO: Representative Bill Fromhold, Chair
Senator Karen Fraser, Vice Chair

FROM: Matt Smith, State Actuary

RE: **STATE ACTUARY APPOINTMENT COMMITTEE**

According to RCW 44.44.013(1), the Chair and Vice Chair of the Select Committee on Pension Policy (SCPP) shall jointly appoint four SCPP members to serve on the State Actuary Appointment Committee, at least one of which shall represent state retirement systems active or retired members, and one member representing retirement system employers. It has been the past practice of the SCPP for the Chair and Vice Chair to appoint themselves to the State Actuary Appointment Committee in addition to two other SCPP members.

As a result of the June reorganization, Chair Fromhold has not been formally appointed to the State Actuary Appointment Committee and former Vice Chair Conway remains on the appointment committee. Vice Chair Fraser, Mr. Goeke and Mr. Thompson remain members of the appointment committee.

O:\SCPP\SAAC 05\Appointment Letter.wpd

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